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May 18, 1999

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MAY 18 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND DELIVERY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W.
Washington, D.C. 20554

Re: Oral and Written Ex Parte Presentation -
CC Docket No. 96-45

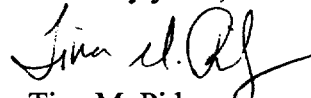
Dear Ms. Salas:

On behalf of Puerto Rico Telephone Company ("PRTC"), we hereby report an oral and written ex parte presentation, made yesterday May 17, 1999, in the above-referenced proceeding. The arguments delivered in PRTC's oral ex parte presentation are consistent with PRTC's prior filings in the proceeding and are summarized in the attached written materials, provided during the meeting. In addition, the participants described the high cost aspects of providing service in Puerto Rico and the adoption of the hold harmless proposal, including LTS.

María M. Reyes Guevara, Esq., Director of Regulatory Affairs for PRTC and Timothy R. Hughes and the undersigned of Drinker Biddle and Reath LLP participated in the meeting on behalf of PRTC. In addition, Ms. Reyes presented the attached letter from José E. Arroyo Dávila, Esq., Vice President of Legal and Regulatory Affairs for PRTC. The presentation was made to Commissioner Gloria Tristani and Sarah Whitesell, her legal advisor.

Two copies of PRTC's written presentation are submitted with this letter pursuant to Section 1.1206(b)(1) of the Commission's Rules, 47 C.F.R. § 1.1206(b)(1).

Sincerely yours,


Tina M. Pidgeon

Enclosures

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MAY 18 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Vice President
Legal and Regulatory Affairs

May 17, 1999

VIA MAIL AND FAX: (202) 418-7542

The Honorable Gloria Tristani
Commissioner
Federal Communications Commission
Portals 445 12th Street
SW Washington, DC 20552

Dear Madam Commissioner:

Thank you for the opportunity to meet with you to discuss Puerto Rico's interest in the continuation of a strong and responsive universal service program. I have asked Ms. Maria M. Reyes Guevara, PRTC's Group Director for Regulatory Policy, to brief you and your staff about the importance PRTC attaches to the universal service program and its impact on the Puerto Rican consumer.

As you know, Puerto Rico has made great strides toward achieving universal service and yet, much remains to be done. Although telephone penetration has increased from 25% to over 74% between 1974 and the present day, Puerto Rico's telephone penetration rate lags the national average (94%) by twenty percentage points.

The Commission will soon consider the recommendations of the Federal-State Joint Board on universal service. PRTC strongly supports the Joint Board's recommendation that no State (including Puerto Rico) receive less universal service support under the new program than it did in the past. This approach has been referred to by the Joint Board as a "hold harmless" policy. In this connection it is essential that the Commission confirm that the universal service support which will be subject to its hold harmless policy includes, not only high cost support, but long term support as well. If long term support is not included, Puerto Rico's consumers could experience rate increases of as much as 40%. Such an outcome would substantially impair Puerto Rico's ability to increase service penetration to levels comparable to those on the U.S. mainland.

If I can be of any assistance to you or your staff, please do not hesitate to call on me. I would like to take this opportunity to commend you on your leadership regarding the V-chip issue and to wish you great success with that and your other endeavors.

Best personal regards,



Jose E. Arroyo Davila

c: Mr. John Slater

**ISSUE: ELIMINATING UNIVERSAL SERVICE SUPPORT FOR
PUERTO RICO THREATENS SUBSCRIBERSHIP**

**PUERTO RICO SERVICE PENETRATION LAGS BEHIND THE NATIONAL
AVERAGE BY 20%**

Puerto Rico	74.8% ¹
United States	94% ²

PUERTO RICAN INCOME IS ONE-THIRD THE NATIONAL AVERAGE

Puerto Rico	\$ 8,509 ³
United States	\$25,288 ⁴

**ONE-THIRD OF PUERTO RICAN HOUSEHOLDS QUALIFY FOR PUBLIC
ASSISTANCE**

Puerto Rico	34.6% ⁵
United States	10.3% ⁶

**REDUCTION OR ELIMINATION OF EXPLICIT USF SUPPORT WILL
INCREASE END USER RATES**

PROJECTED EXPLICIT USF SUPPORT (1999)

\$135 million: ⁷	\$ 45 million in high cost support
	\$ 90 million in long term support

CURRENT MONTHLY RATE

\$15.00 weighted average rate
\$45.00 adjusted for per capita income

**POTENTIAL EFFECT ON LOCAL RATES OF ELIMINATING
EXPLICIT USF SUPPORT**

\$23.72 weighted average rate (\$8.72 increase)⁸
\$71.16 adjusted for per capita income (\$26.16 increase)⁹

SOLUTION: ADOPT ONE OF TWO PENDING TRANSITION PROPOSALS

PRTC PROPOSAL

Subject carriers serving insular areas to the same schedule for transition to a proxy model methodology established for rural carriers

The Commission delayed transition for rural carriers "because the cost models in the record of this proceeding produced a higher margin of error for rural carriers." USF Fourth Order on Reconsideration, ¶ 78. **The same has been true for PRTC.**

The Commission must ensure affordable universal service for insular areas. Sec. 254(b)(3). **Puerto Rico is an insular area.**

The Commission recognized the possible need to adjust the schedule for non-rural carriers serving insular areas if information for these areas was not included in the economic cost models. USF First Report and Order, ¶ 317. **Puerto Rico data has been difficult to develop and test, and the schedule for non-rural carriers serving Puerto Rico must be adjusted.**

JOINT BOARD "HOLD HARMLESS" PROPOSAL

No non-rural carrier will receive less federal high cost assistance than the amount it currently receives from explicit support mechanisms

"If substantial reductions [in support] were to occur in a single year, some consumers could experience rate shock. Both significant, sudden increases in the fund size overall, and significant decreases in the support that goes to a particular carrier, could have a notable impact on consumers' rates." Second Recommended Decision, ¶ 51. **Puerto Rico consumers would experience a substantial increase in rates with the elimination of explicit USF support.**

The Joint Board was cognizant of the benefits of its proposal for Puerto Rico. Second Recommended Decision, ¶ 53. **The proposal is expressly applicable to Puerto Rico Telephone Company.**

Hold harmless is consistent with the Commission's pledge to Congress that "no state should receive less federal high cost assistance than it currently receives." Report to Congress, ¶ 197. **Puerto Rico may lose significant support under a proxy model methodology.**

SOURCES

¹ Puerto Rico Telephone Company (subscriber map attached).

² "Telephone Subscribership in the United States," Industry Analysis Division, Common Carrier Bureau (rel. May 1999), Table 1.

³ "1997 Local Area Personal Income," Bureau of Economic Analysis, Commerce Department (May 6, 1999).

⁴ "Puerto Rico in Figures," Government Development Bank for Puerto Rico (1997) at 2.

⁵ Total households in Puerto Rico as of April 30, 1999/Households eligible for public assistance as of April 30, 1999

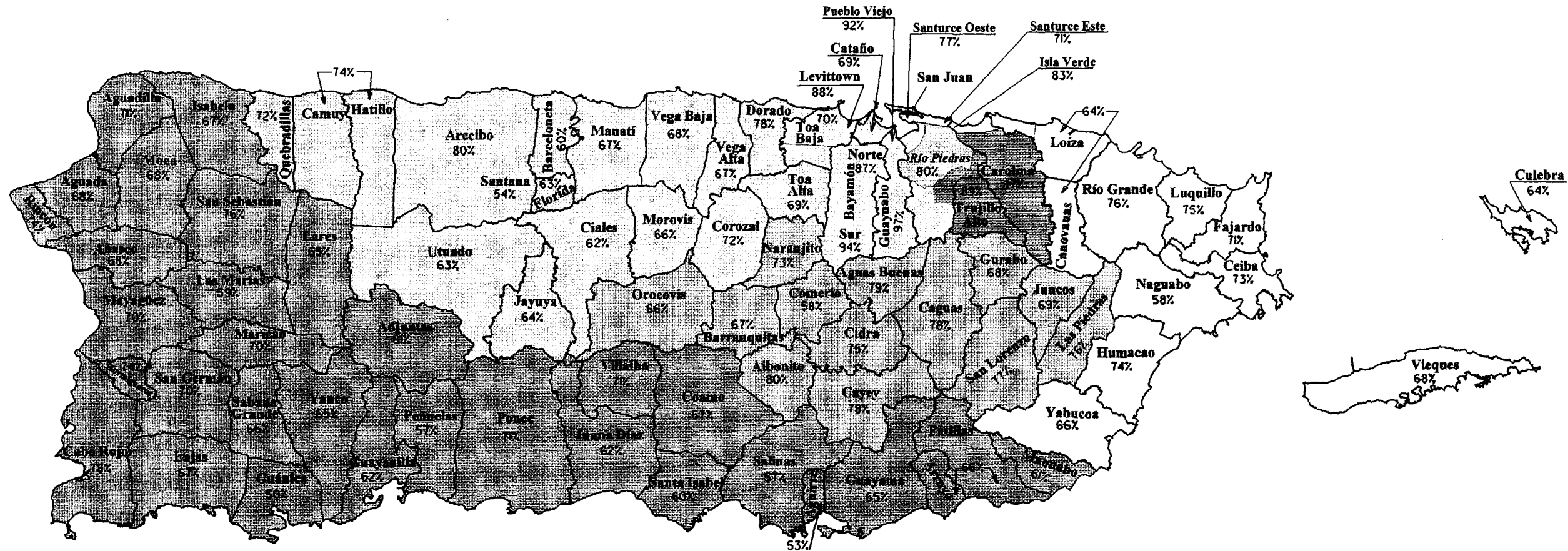
⁶ Dalaker, Joseph and Mary Naifeh, U.S. Bureau of the Census, Current Population Reports, Series P60-201, Poverty in the United States: 1997, U.S. Government Printing Office, Washington, D.C., 1998 at viii.

⁷ 1999 estimates based on actual data for January through April, 1999.

⁸ Estimated PRTC explicit USF Support/1.3 million lines in Puerto Rico/
12 months = \$ 8.72

⁹ Total from line 8 x ratio of Puerto Rico per capita income to United States per capita income

PERCENTAGE OF HOUSEHOLDS WITH A TELEPHONE DECEMBER 1998



LEYEND

	METRO NORTH = 74%		ISLAND NORTH = 69%
	METRO SOUTH = 80%		ISLAND SOUTH = 65%
	METRO EAST = 88%		ISLAND EAST = 70%
	METRO WEST = 90%		ISLAND WEST = 70%
	METRO CENTRAL = 90%		ISLAND CENTRAL = 74%

TOTAL P.R.T.C. = 74.8%

PUERTO RICO

Depto. Apoyo Técnico y Administración de Procesos de Ing. y Construcción de Planta Externa

Mapa Base - Depto. Mecanización de Planta Externa Archivo :tcpcex.dgn

Preparado por: Sra. L. Vázquez Revisado : Abril/77/1999

PUERTO RICO TELEPHONE COMPANY

TARIFFS SCALE REVISED FOR BASIC SERVICES

CLASS OF SERVICE	SCALE 1 40,001 and Greater		SCALE 2 10,001 - 40,000		SCALE 3 5,001 - 10,000		SCALE 4 1,001 - 5,000	SCALE 5 201 - 1,000	SCALE 6 Until 200
	BASIC RENT	UNITS ALLOWANCE	BASIC RENT	UNITS ALLOWANCE	BASIC RENT	UNITS ALLOWANCE	BASIC RENT	BASIC RENT	BASIC RENT
RESIDENTIAL									
Main Station									
Individual									
Measured I	\$ 7.25	70	\$ 6.70	60	\$ 6.10	60	----	----	----
Measured II	14.35	160	11.25	125	10.35	125	----	----	----
Unlimited	18.80	---	15.10	---	14.00	---	\$ 8.45	\$ 7.60	\$ 6.45
Party Line									
Measured I	\$ 6.05	60	\$ 5.45	50	\$ 4.80	50	----	----	----
Measured II	13.60	150	10.55	115	9.65	115	----	----	----
Unlimited	17.35	---	13.70	---	12.55	---	\$ 7.30	\$ 6.45	\$ 5.80
Business									
Main Station	\$23.05	85	\$22.35	85	\$21.90	85	\$25.25	\$21.60	\$19.30
Main Line	36.65	85	35.65	85	35.00	85	38.25	34.60	32.90
Main Trunk	40.65	85	39.65	85	39.00	85	43.90	39.90	37.25
Additional Trunk	28.60	--	27.60	--	26.95	--	43.90	39.90	37.25

The charge for additional units is \$0.13

Installation charge: Residential \$ 35.00
Business 120.00

Deposit: Residential \$ 20.00
Business 50.00

Prepared: Tariff and Cost of Service Dept.